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RUEHBY/AMEMBASSY CANBERRA 9683
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RHHMUNA/HQ USPACOM HONOLULU HI
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SIPDIS

DEPT FOR EAP/MTS AND EB/ESC/IEC
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DOE FOR CUTLER/PI-32 AND NAKANO/PI-42
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FROM AMCONSUL SURABAYA 1771

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TAGS: [ECON](#) [EINV](#) [EPET](#) [PGOV](#) [ID](#)
SUBJECT: East Java: Update - Mudflow Continues Unabated,
Closes Toll Road, Threatens East Java Gas/Water Supplies

REF: Jakarta 7839

¶1. (SBU) SUMMARY: More than a month after a gas well ruptured just outside of Surabaya, East Java, the mudflow continues unabated (Reftel). The good news is, the mud is most likely not harmful in the long term (even if a bit smelly in the short term) and that eventually, they should be able to contain the well. The bad news is, the mudflow has increased in volume, the response by the responsible firms and local and national government has been insufficient and has failed to address even the more pressing issues (like the 3 feet of mud that have now cut off the main north-south toll road), cost estimates to fix the well are in the USD 100 million range, commercial and economic losses are mounting, and the situation is now threatening the main liquefied natural gas (LNG) line for East Java. End Summary.

So What Actually Happened?

¶2. (SBU) As reported Reftel, PT Lapindo Brantas, was drilling an exploratory gas well in an area 12 miles south of Surabaya. The well fractured and has been spewing hot mud since the end of May. PT Lapindo Brantas is owned by the holding company of Minister of Social Welfare Aburizal Bakrie and his brother. Lapindo Brantas, the operator of Brantas PSC and 50 percent interest holder, is a subsidiary of local oil firm PT Energi Mega Persada, which is controlled by the Bakrie Group. Local oil company Medco Energi holds a 32 percent interest in the block and Australia's Santos Limited holds the remaining 18 percent. PT Lapindo Brantas maintains that it followed all regulatory procedures, standard drilling procedures and had a government approved environmental impact permit. The firm also tried to lay blame for the accident on the May 27 Yogyakarta earthquake. The police investigation underway has heard expert testimony that this accident was completely unrelated to the earthquake. According to our contacts and preliminary reports from the police investigation, Lapindo Brantas apparently did not conduct sufficient geological research (there's a question whether they actually did any geological surveys at all) and drilled on a known fault

line. They used old, worn out equipment which was unable to withstand the stresses of drilling a high pressure well. They did not use sufficient casings for the well (international standards), and the drilling crew and supervisors all had no previous experience in drilling a high pressure well. The final nail was, once the well fractured, the crew appeared to panic, immediately removed the drilling equipment and broke the POB valve in the process, eliminating the only fast way of trying to control the well. The crew, according to police reports, then simply left the site.

The Good News

13. There is not much good news but at least it appears the mud is not "toxic." ConGen Surabaya Pol/Econoff spoke with an overseas well containment expert brought in to assist. The mud consists of dissolved young shale rock and may contain trace amounts of heavy metals and phenols but not in dangerous levels as has been reported in the press. Massive amounts of salty water (millions of gallons) is shooting up from the earth and dissolving the sedimentary rock back in to its previous form. (Hydrogen Sulfide gas was initially emitted from the fissure but that has apparently ceased.) Also, the well-containment expert is confident that the well can be contained but estimates a minimum of 4 months unless they are lucky and the well stops on its own.

The Bad News

14. The mudflow is much larger than previously reported and

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there is as yet no strategy on how to contain it, much less remove it. The flow has covered an area estimated approximately the equivalent of 1600 football fields. According to our contact, who has been out at the site for the last few weeks, 25,000 cubic meters per day grossly underreports the amount of mud shooting out of the fissure. The mud has built up to a "mountain" 25 to 30 feet above grade at the fissure point and is spreading rapidly although at a slower rate because the area is larger. It has now completely cut off the main north-south toll road with mud 3 feet deep, severely disrupting commerce in East Java. To date, efforts to contain the mud have been insufficient, consisting mainly of small dam walls which are being ruptured on a daily basis and rebuilt with no engineering plan or input. Outside experts have helped PT Lapindo Brantas draft a organizational action plan to deal with the problem but after 3 weeks, the firm has yet to fill 10 percent of the positions.

15. There may in fact be no way to contain a flow of this size; our contacts have recommended that mud be diverted via a channel to where it would do the least amount of damage. One option would be to have it empty into the Porong river where it would theoretically wash out to sea but local officials and environmentalists are cautious about any solution that could endanger the river or water supply for the greater Surabaya area. So far, Lapindo Brantas has focused most of its containment efforts on preventing the mud from flooding two new high-end housing developments, leaving the local village residents to fend for themselves. That strategy may lead to an increase in the number of local residents forced to evacuate their houses/villages. Our contacts think the numbers could rise from the current 4,000 displaced to 10,000 in the next few weeks.

16. The well is emitting brackish, salty water at very high temperatures to dissolve the shale into mud. This water is breaching the local underground water table, tainting all wells in the area (for most of the villages and residents, well-water was the only potable water available.) This is happening over a much larger area than the radius of the mud

flow itself.

¶17. Estimates of cost to fix the well keep rising and will likely reach at least USD 100 million (far exceeding PT Lapindo Brantas assets.) This figure does not include any of the economic damages to local companies, residents, or the toll road. Lapindo Brantas has been very slow in approving necessary measures to stop the mudflow, especially if they are costly. According to our contacts, officials from Lapindo Brantas were unhappy when their insurance company started discussing culpability during a recent meeting. It appears, according to our contacts, that human error, poor decision making and outright incompetence all contributed to this accident. Preliminary police investigations also cite human error and negligence. If Lapindo Brantas insurance claim is denied due to gross negligence and willful ignoring of standard operating practices, they could be headed for bankruptcy and try to stick the government with the bill.

The Very Bad News

¶18. If it weren't bad enough that the well was drilled in the middle of a heavily populated area, within 40 yards of the main road artery for East Java, on a geologic fault, with faulty equipment and inexperienced staff, it turns out the main liquefied natural gas (LNG) line for East Java runs between the fissure and the toll road. This is a large line under 1,200 pounds of pressure that carries virtually of the LNG in East Java which feeds all of the power generation plants in this province. Since the "mud monster" is essentially hot pressurized water scouring out the drilling channel 10-30 yards away from the pipeline, according to experts we talked to, there is a significant risk that

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action could undermine the pipe bed. In a worst case scenario, the weight from the earth on top and the heavy equipment that PT Lapindo Brantas is running over the area could cause the pipe to fracture disrupting the gas flow throughout East Java. PT Lapindo Brantas has been unreceptive to suggestions that they bypass that area due to the expense involved in construction an alternate access route.

Comment

¶19. (SBU) So far, the police investigation has focused on the actions of the immediate players, i.e. PT Lapindo Brantas, and is already finding plenty to fault. It won't get really interesting though until the police broaden their investigation to authorities who issued the permits, including officials in the Energy and Mineral Resources Ministry and the Oil and Gas Regulatory Body (BP Migas), and national or local environment ministry offices. Our local contacts all ask the same question - how did they get permits to drill and/or who was making sure they followed the rules? However, few in East Java will give you odds on that happening anytime soon. Although Minister for Social Welfare, Aburizal Bakrie, who owns a controlling interest in the well through the Bakrie Group, initially acknowledged responsibility for damage claims, more recently, his response has been "talk to my brother, it's his company."

PASCOE